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SUBJECT: WITH AN EYE ON CHINA, JAPAN AND INDIA KICK OFF
ECONOMIC PARTNERSHIP NEGOTIATIONS

Classified By: PolCouns Ted Osius for Reasons 1.4 (B,D)

11. (C) SUMMARY: The governments of India and Japan are hoping to commence a new economic partnership with round one of negotiations on the Japan-India Economic Partnership Agreement (EPA), followed by the visit of a high-level Japanese business delegation to India. The Economic Minister of the Japanese Embassy said February 6 that the first round of negotiations, held in New Delhi Jan. 31-Feb. 2, did not address major issues, but laid the groundwork for future negotiations centered on lower import duties and streamlined visa processes. He said the aim of the EPA was free movement of people, money and goods, and that, the combination of Japan's 50% GDP share in Asia with India's 10% GDP share (non-PPP) would be a "very dynamic bargaining tool," noting that "it is important to maintain balance in the region among India, Japan and China." At a high-powered Japanese business delegation meeting February 14, Indian Union Minister for Science and Technology Kapil Sibal invited Japanese businessmen to India, and reportedly stated, "Let there be joint ventures to bring together Japanese technology and the potential Indian market, as it would enable us to access the world market." For now, this agreement is more about the

politics of cementing an Indo-Japanese partnership to balance China than about any real economic benefit. END SUMMARY.

Laying the Groundwork

12. (C) Toshitsugu Uesawa, Economic Minister of the Japanese Embassy, said February 6 that the first round of negotiations on the Japan-India Economic Partnership, agreed to when Prime Minister Singh visited Tokyo in December 2006, had been held Jan. 31-Feb. 2 in Delhi. Heading the Japanese delegation was Mr. Masaharu Kono, Deputy Minister for Foreign Affairs, and the Indian side was led by GK Pillai, Secretary of Commerce. Uesawa said that this round had been "just a kick off,"

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designed to lay the groundwork for future negotiations on the bilateral trade agreement. The primary accomplishments of this meeting had been defining the scope of future discussions, determining the constitution of the delegation, scheduling future meetings, determining press guidelines and the formation of basic principles. The two sides will meet every two months, alternating between Japan and India, with the next round scheduled for the week of April 9th in Japan. According to the Government of India (GOI) Ministry of Commerce, the EPA negotiations are likely to be concluded in the next 18 months. (Note: This is an ambitious target for Indian trade negotiators, and if achieved, will probably be because the agreement contains marginal changes to GOI trade practices. End note.)

Free Movement of People, Money and Goods

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13. (C) Uesawa said the aim of the EPA was "free movement of people, money and goods," noting that India had stated it wanted Japan to accept unskilled Indian workers. Uesawa indicated that the Japanese consider their market to be free, but that the Indians "think it is full of obstacles and invisible barriers." He also stated that Japan will be firm in asking India to abolish duties for 90% of its tariff line items within ten years, declaring, "we will hold on to this demand until the end." Outside of those issues, Uesawa reported that there were no serious differences between Japan and India.

Japan GDP Plus Indian GDP: A Dynamic Bargaining Tool

14. (C) Uesawa assessed that, by combining Japan's 50% share of Asian GDP with India's 10% share (not calculating using Purchasing Power Parity Power), the total of a 60% share would be "a very dynamic bargaining tool." (Note: It was unclear from Uesawa's comment whether he envisioned that this bargaining power would be useful to India and Japan in the WTO Doha Round or in negotiating further market access via BTAs or regional trade agreements (RTAs) in Asia. In any case, Uesawa likely sees greater Indo-Japanese cooperation as a counterweight to China's growing economic clout in the region. End note.) This sentiment was echoed at the 34th India-Japan Joint Business Cooperation meeting, where Japanese Ambassador to India Yasuki Enoki said that the two countries "can corner 60 percent of the Asian GDP." Also at the meeting, organized by the Federation of Indian Chambers of Commerce and Industry for the Japanese business delegation led by Mitsui Chairman and Executive Director N. Ohashi, was Indian Union Minister for Science and Technology Kapil Sibal, who invited Japanese businessmen to India. "India is a low cost economy with a very high quality human resource base, and offers much more opportunities than China," Sibal said, according to the press.

Issues for Round Two

15. (C) Uesawa said issues to be discussed in forthcoming rounds include:

- market access and general rules related to trade in goods
- rules of origin
- customs procedures
- trade in services
- investment
- intellectual property
- improvement of business environment and investment cooperation.

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Comment: More Political Than Economic

16. (C) It's not altogether clear how a bilateral trade agreement between Japan and India will benefit U.S. companies unless the agreement tackles restrictions in difficult sectors like agriculture, which is highly unlikely. If anything, the trade diversion effects inherent in a WTO-plus BTA may adversely impact U.S. exports to India of certain high-tech and capital goods which Japan also produces. Indian BTA negotiations usually leave out the sensitive and highly protected agriculture sector, which is the crux of the impasse in the Doha Round. More ambitious Indian trade negotiations, in particular with the ASEAN countries, have run into difficulties over sensitivities and India's negative lists that exclude a large chunk of trade. The proposed India-Japan EPA is likely to emulate the unwritten goals of the India-EU BTA negotiations launched a few months earlier: modestly increased market access for non-sensitive goods, technical cooperation on trade facilitation, and no discussion of agricultural trade. Where the Japan talks differ is that the unstated goal of forging a Japan-India partnership to counter China reflects the very real political aim of this ostensibly economic effort. End comment.
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